Chapter 2

Customer-Focused Governance: Why is it relevant to the developing world?

> *"Bureaucracy is not the problem…The underlying problem, to which bureaucracy has been and remains a solution, is that of fragmented process." Michael Hammer & James Champy, Reengineering the Corporation (1993)*

> *"Few people in government ever use the word customer." David Osborne and Ted Gaebler, Reinventing Government: How the Entrepreneurial Spirit is Transforming the Public Sector (1992)*

> *"We have summed up the main results of [our] research into the costs of access to industry, housing, trade, and transport …these costs are caused by government regulations of varying nature and importance. They were doubtless imposed in a desire to correct the defects of the market and better plan or rationalize private sector activity but have exactly the opposite effect." Hernando de Soto, The Other Path (1989)*

The theoretical underpinnings of the Investor Roadmap approach lay in two distinct schools of thought. One school is in the area of development economics and the pioneering analysis of the Peruvian informal sector by the economist Hernando de Soto. The other is the reengineering philosophy that has swept corporations, governments, and organizations in the developed world. Despite the apparent incongruities between the two, they both have a similar themes: a focus on *bureaucratic procedures* – one in terms of the economic inefficiencies caused by excessive procedures, and the other in terms of using a procedural focus to improve organizational effectiveness.

This thematic consistency, and its relationship to the Roadmap, will become clearer as these two schools are discussed below.

The Other Path

In his pivotal 1989 book, The Other Path: The Invisible Revolution in the Third World, De Soto set out to dispel the myth that "informality -- slums and shantytowns, small industry and, in general, many activities which Peruvians carry on illegally -- represents only poverty and marginalization."[1] Using Lima, Peru as a case study, he documented that not only were these informal traders and businesses highly rational economic actors, but that they also made a substantial contribution to the national economy.

Through detailed field studies, De Soto established that the informal sector in Peru controlled over 93 percent of urban transport (despite the fact that this sector was state-controlled) and that informal activities accounted for 39 percent of national gross domestic product (GDP). He detailed how informal traders dominated the retail distribution of popular consumer goods in Lima, accumulated housing, built markets, and otherwise demonstrated a "tremendous ability to generate wealth."[2]

De Soto's work went beyond simply documenting the informal sector's role in the economy. His interviews with informals also demonstrated that it was the cost of complying with government laws and regulations that led these individuals to operate informally. This premise was tested in the industry, housing, trade and transport sectors. In the industry sector, for example, researchers established a simulated company complying with all the bureaucratic procedures required to establish it in accordance with the law. This exercise found that to establish a representative, single proprietor company required spending 289 days on bureaucratic procedures, at a total cost equivalent to thirty-two times the monthly minimum living wage. Analysis of the other three sectors demonstrated a similarly bureaucratically overwhelming and costly process.[3]

In short, De Soto conclusively established *how regulations create the incentives for choosing informality*. Moreover, he also documented that due to such regulations there was also a *considerable cost associated with remaining formal* -- through the need to pay taxes, to continue to comply with a large number of bureaucratic procedures, to administer personnel in a certain way, etc.[4] Finally, he explained how these regulations, by encouraging informality, imposed an economic cost on society in terms of reduced productivity, lower investment levels, an inefficient tax system, reduced adoption of new technologies, and problems in creating macroeconomic policy, among others.

De Soto's economic analysis was considered pathbreaking at the time, but his theses regarding the economic dynamism of the informal sector, and the impact of government regulations on the growth of this sector, quickly became incorporated into mainstream developmental economic thought. As will be seen in this book, his argument that bureaucratic complexity is costly for businesses -- both in terms of the resultant delays in establishing a business, and in complying with government procedures when operational -- is a strong underlying premise of the Roadmap approach.

The Reengineering School

If De Soto's work provides the underlying theoretical underpining for the Roadmap's focus on reducing bureaucratic complexity, the literature associated with government and corporate re-engineering provides the methodological rationale to the Roadmap's focus on addressing *procedures* and *customers*. In a real sense, the Investor Roadmap represents a marriage of De Soto's thinking on the negative economic impact of bureaucratic procedures, with the reengineering focus on redesigning those procedures.

The general concept of reengineering was popularized in the early 1990s, thanks principally to Michael Hammer's and James Champy's bestselling book <u>Reengineering the Corporation</u>.[5] The reengineering concept was quickly applied to the operations of the U.S. federal government (as epitomized by the as 1993 National Performance Review Initiative associated with Vice President Al Gore), as well as to state, municipal, and local governments. Reengineering government has not been limited to the United States. Reengineering initiatives have also been undertaken by national governments in Australia, New Zealand, the United Kingdom, and Canada in order to increase governmental efficiency and responsiveness.

The Roadmap borrows several key concepts from both the corporate and governmental reengineering approaches. The first of these is the focus on the *process*. According to Hammer and Champy, who defined the concept and practice of reengineering, reengineering is the "fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical, contemporary measures of performance, such as cost, quality, and speed."[6] To these authors, bureaucracy *per se* is not the problem -- for without bureaucracy there would be chaos -- rather, the real problem is that of "fragmented processes."[7]

Fragmented processes are those in which a single task -- such as delivering a product to a customer -- is divided between a number of specialized units or organizational divisions; for example, the sales division, shipping, warehousing, billing etc. Each of these units focuses on its particular share of the task, rather than on the final outcome: quick delivery to a satisfied customer. Frequently as well, these units follow rules and practices that are based on outmoded assumptions or rules. Consequently, organizations characterized by fragmented processes and specialized structures are typically inflexible and unresponsive to their customers, as well as to changes in the market. While it was once economically efficient to break tasks into separate, repetitive, and specialized actions, say the reengineering advocates, the inflexibility that results is inappropriate to a world economy characterized by rapidly changing product cycles, and increasing global competitiveness.

Reengineering, by contrast, looks at the process as a whole, and invents new ways to accomplish a task.[8] This may entail combining several steps into one; reducing the number of checks and controls; performing steps in a rational, rather than a linear order; performing processes in multiple versions, rather than using a "one size fits all" approach; and performing steps where it makes the most sense, such as a decentralized location near the customer. The focus is on the process, not the organization. Likewise, the emphasis is not on changing the department, rather the work that the staff performs in each department is changed.[9]

Public organizations have adopted the concept of process reengineering to improve the way that government provides services. Reengineering within a governmental perspective focuses on improving agency or departmental performance from the perspective of its customers and stakeholders; that is, creating an organization that is *customer-driven*, rather than rules driven.[10] Again, the focus is on improving the process, or sub-process, across all departments or agencies that may be involved.[11]

This focus on customer-driven governance provides a second key conceptual element of the Investor Roadmap. What is *not* borrowed from the reengineering approach is the emphasis on the necessity of fundamentally redesigning or overhaul of processes. This approach has a much higher failure rate and is therefore a riskier approach than is “process improvement.” Process improvement may result in less dramatic change than does reengineering, but because it is less likely to fail, it is also more likely to lead to at least *some* change.

Reengineering reinvents the way a corporation performs certain tasks so it can better serve the customer. The ultimate purpose of reengineering a company is not to improve its performance for performance's sake, or even just to save money, but because it will make that firm's products and services more attractive to the customer. Satisfying that customer will enable the company to meet its objective, which is to be more profitable.

Similarly, a government that is customer driven will offer a higher level of service and seek to accommodate the needs of those customers. It will do so not just for the sake of doing so, but because that is its mission. As will be seen in the case of an investment bureaucracy, agencies that are customer-driven seek to ensure that the investor receives the various permits and approvals needed to establish and operate a business as quickly as possible.

Relevance to the Developing World

Development practitioners and those unaccustomed to using the language of corporate managers may well wonder how these reengineering concepts are relevant to the developing world. While these concepts are actually pertinent to all sectors of government, as will be discussed in further detail below, they have immediate applicability to improving the performance and function of developing country bureaucracies concerned with overseeing business establishment and operation.

To understand this applicability, it is necessary to comprehend what is required to formally establish and operate a business, whether it be in a developed or developing country. An entrepreneur wanting to build a factory must first select a geographical location – a country, a state, province or town, and a site within that location. In all countries worldwide, regardless of state of development, economic philosophy or geographical location, a variety of governmental regulations and requirements must then be satisfied in order to receive permission to build and operate that factory: the company must be incorporated; the business must be registered; the land must be rented or bought; if some of the staff are foreigners, specialized visas or work permits may need to be obtained; specialized operating licenses may be required; and the building plans must be approved, to name a few.

Once operational, the materials and inputs must pass through customs when imported and exported; health and safety inspections must be held; taxes must be paid; employment regulations must be followed, and so on and so forth. In all, the entrepreneur must interact with the government both when establishing the business and when operating that business, and at multiple points within both of these phases.

The speed and efficiency with which these various interactions can be completed can vary enormously and somewhat unpredictably around the world: in some “developed” countries, it may be very bureaucratically complex, while in some “developing” countries, the required procedures may be so simplified that the entire process can be expeditiously completed. What is fairly certain, however, is that in countries with a history of heavy state involvement in the economy, these procedures tend to be very complex, bureaucratic, and incredibly time-consuming to complete.

Like the corporations described by Hammer and Champy, the government bureaucracies involved in these interactions are characterized by fragmented processes. Each ministry, agency, and department has its own processes or procedures for reviewing and approving (or rejecting) various applications to complete just one part of that lengthy process to establish a business; for example, issuing visas or registering a company. Each agency or department may control that single process, or they may share it with another agency; perhaps their stamp of approval on a form is just one of several required.

Some procedures may have to be completed in the national capital, rather than in the provincial center where the business will be based. Sometimes a single form may have to be reviewed by two separate agencies operating in separate cities, and may have to undergo a lengthy journey to move from one city to another. Moreover, the rules governing that agency's operations may be inappropriate, based on colonial practice or be otherwise anachronistic, or idiosyncratic. In all these cases, the focus of each governmental unit is on its portion, or fragment, of the process, rather than on the final result. As will be seen, the inefficiencies and inflexibility resulting from these fragmented processes are best addressed by focusing on the process as whole, rather than on trying to improve the individual department or unit within that department.

Similarly, a focus on customer service -- rather than being some developed country affectation or convenience -- is highly relevant to developing country governments. Businesses are customer-service oriented, of course, because they have to be – if their customers are dissatisfied, they will purchase their goods and services elsewhere and that business' sales and profits will suffer accordingly.

Governments, on the other hand, are frequently indifferent to the needs of their customers because – short of moving – the customer has no alternative choice for the delivery of services such as the granting of business license and permits. Faced with such indifferent of inefficient public sectors, these businesses must simply endure the lengthy processes that result, or – and this is an option only for smaller enterprises -- elect to stay in the informal sector. As documented by De Soto, it is this government over regulation and indifference that accounts for the enormous size of the informal sector in many developing countries.

This is true, however, only for domestic firms. Unlike domestic entrepreneurs, foreign investors *can* go elsewhere if governments appear unresponsive to their needs, as measured by business and establishment procedures that are overly complex and burdensome. As will be discussed in further detail in the following chapter, developing country governments are increasingly trying to encourage private investment, particularly foreign investment, in their countries. This investment brings with it a myriad of benefits, including jobs and outside capital.

This is precisely why a new focus on customer-oriented governance is essential to developing country public sectors. Encouraging foreign investment is a twofold process. It first entails *attracting* investors to the country and providing an investment climate that encourages them to begin the investment application process. It also entails, however, *retaining* those investors – making sure that they actually complete the entire investment process and actually set up their factory or store, rather than throwing up their hands in disgust at the complexity of the investment process and going home.

This retaining part of the process is equally, if not more, important. While governments do not have control over some aspects of the investment climate – such as geographic disadvantages like a landlocked position -- they do have control over their bureaucracies. Governments that recognize that investors – the customer – have a choice can use process-oriented reengineering to create simplified and expedited investment approval and business establishment processes that are customer and investor friendly.

Countries which have created such investor-friendly environments are not only better able to attract investment, but are able to retain a higher proportion of that investment.[12] Moreover, recent research has documented that countries such as Hungary, Chile, and Malaysia, which have been highly successful in targeting and retaining foreign investment, have done so by strategically tailoring all government processes to meet the needs of those targeted investors. These countries have succeeded, in effect, because they pro-actively identified the customer and strategically focused their procedures to *anticipate* the specific needs of that customer.[13]

Combining Reengineering with Development

The Roadmap Approach: Customer-Focused Governance

How does the Investor Roadmap utilize these reengineering concepts as a developmental tool? First, it incorporates the focus on the investor, in particular, the foreign investor. Two, it utilizes a process-focused methodology to identify and document all the various steps and agencies involved in setting up and operating a business. Three, the Roadmap uses a process improvement approach to analyze and redesign these processes so that they are simpler and more transparent.

The Roadmap's focus on the process is sharply different from most attempts at civil service reform. These reforms typically focus on the *institution*, and attempt to improve the efficiency with which the various departments and units within that institution function. An example of this sort of institutional reform is shown in Table 2.1 below. This table examines four distinct departments and ministries that are frequently targeted for reform, and three to four of their responsibilities.

Typically, reform efforts encompass the whole of the organization as suggested by the circle encompassing the Ministry of Lands. Typical institutional reform activities include rationalizing departments to correspond to agency goals, changes in job descriptions, empowerment programs, staff training, and personnel "downsizing." These activities will usually focus on organizational units within the Ministry; for example, they will try and improve the department responsible for allocating land, strengthen the surveying department, improve the efficiency of the planning department, and so on.

Table 2.1: Separate Functions of Sample Institutions

Issue Passports / Identity Documents		Border Control	Approve Work Permits	**Department of Immigration**
Planning	Maintain Registry	Surveying	Allocate Land	**Ministry of Lands**
Collect VAT	Collect PAYE	Collect Corporate Tax / Audits	Manage Customs Activities	**Revenue Authority**
Negotiate Trade Deals	Promote Investment	Maintain Company Registry	Offer Incentives	**Ministry of Trade and Industry**

In an effort to decentralize authority and empower the employees of the various organizations, many of these efforts at institutional reform take place in isolation of one another. These reform attempts are typically based on the distinct goals held by each institution. Using this institution-driven perspective, institutions such as the police will have distinct goals – which will reflect its controlling function – from those of the Ministry of Trade and Industry -- whose activities will reflect its service-oriented goals. Since the goals are not inter-related, neither will the reforms lead to inter-related improvements.

While on the surface it may appear that many of the departments have little to do with one another, a common and crosscutting bond in fact joins these agencies. This bond is the "customer" whose needs stretch across ministerial and department boundaries. This common bond is indicated by the circled area in Table 2.2. The circled area represents the common points of contact between these agencies and the investor. The perspective of a common customer actually gives each agency harmonized goals, whereas before they were distinct. From the investor's perspective, the circled area represents what he needs from each of the agencies in the table; he has no interest, however, in those agencies' other functions or responsibilities.

Table 2.2: Customer-Focused …

			Investor	
Issue Passports / Identity Documents		Border Control	Approve Work Permits	**Department of Immigration**
Planning	Maintain Registry	Surveying	Allocate Land	**Ministry of Lands**
Collect VAT	Collect PAYE	Collect Corporate Tax / Audits	Manage Customs Activities	**Revenue Authority**
Negotiate Trade Deals	Promote Investment	Maintain Company Registry	Offer Incentives	**Ministry of Trade and Industry**

The value of the Investor's Roadmap's customer-focused perspective is that it cuts across the traditional boundaries of government ministries to identify goals and functions that they hold in common. For ministries and departments concerned with investment, these common goals may be:

- Attracting and maintaining foreign investment.
- Formalizing informal local investment.
- Reducing the transaction costs and overheads of existing investments' interactions with government, thereby making the business more internationally competitive

Upon recognizing these common goals, these government departments can then work together in a process-based approach to better meet these goals. Using this process focus, the Investor Roadmap has been able to eliminate many administrative constraints to investment through the following:
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- Greater interaction between government ministries and departments;
- A reduction of duplicative processes and forms;
- Shorter processing times for applications;
- An awareness of "customers" and required services;
- Fewer interactions with government agencies, thereby reducing costs to investors; and
- Elimination of unnecessary regulations, thereby concentrating resources dedicated to enforcement to still valid regulations

Overview of the Roadmap in Action

The Investor Roadmap is an exercise that complements institutional reform by taking a customer-focused approach to governmental reform. While analytical in approach, the focus of the Roadmap is not on analysis, but on fostering effective change. This change is brought about through a four-stage process which includes *analyzing* opportunities for improvement, *motivating or energizing* the bureaucracy to take action, *identifying* realistic solutions, and *implementing* those solutions. Each of these stages is typical of a standard corporate reengineering approach, although they have been somewhat adapted to a developing country context. *(Figure 2.1 schematically illustrates the key components of each stage and the relationship of each stage to one another).*

The four stages encompass the following activities:

Analyzing: The analysis stage is comprised of two parts: a detailed discussion of all the processes that must be completed to satisfy business establishment/business approval requirements, and an analysis of these procedures. Each process is analyzed on three dimensions:

- The Customer Interface – *"How easy is it to do business?"*
- Procedures – *"How long does it take to process?"*
- Legislative and Regulatory Environment – *"How do laws impact the Customer Interface and Procedures?"*

This stage has been referred to as Phase I in those countries where Roadmaps taken place.

Motivating and Energizing: The findings of the previous analytical stage are presented, and a variety of techniques are used to ensure that these findings motivate the government to undertake change. *(This stage serves as the "bridge" between Phases I and II.)*

***Identifying*:** The third stage, identifying realistic solutions, focuses on a identifying potential changes in a select number of processes. This occurs through the use of process improvement workshops held with members of all the agencies involved in those processes. *(This stage has usually been called Phase II in the countries where Roadmaps have been conducted. In practice, Phase I and Phase II have often been conducted sequentially as part of the same technical exercise.)*

Implementing: The final stage, implementing, takes a longer-term approach to reform. Typically, this stage will require the in-country placement of a long-term consultant. This stage has two tasks: to focus on the implementation of the reforms identified in the previous stage, and to extend government reforms to include all the processes identified as problematic, rather than just the selected processes that were the focus of the process improvement workshops conducted as part of the identifying stage. *(This stage has frequently been referred to as Phase III).*

Each of these stages will be addressed in a separate chapter. A recurrent theme through all four stages, however, is the concept of government *ownership and sponsorship* of the Roadmap process. Ownership refers to the idea that the government should identify problems and propose solutions to those problems, based on the premise that reforms that are government driven, rather than consultant driven, are more likely to be implemented. Sponsorship is the process by which specific government agencies "buy into" and become actively involved in the reform of specific procedural areas. Both of these concepts are critical to the Roadmap's success in generating concrete feasible solutions which to procedural problems.

It should be noted that while it is analytically convenient to compartmentalize these stages into separate and isolated products, each stage is actually an intregal part of a holistic approach. Rather than being a rigid methodology, the Roadmap change reengineering approach is actually a fluid and flexible approach that is highly adaptable to the individual circumstances and requirements of each country. In practice, its successful implementation typically requires a series of incremental or "baby steps" to find the right direction rather than a planned and straightforward march. Frequently, however, achieving change through small steps and modifications is at odds with the way that other development projects are carried out and financed. This flexibility of the Roadmap approach will become apparent in the following chapters. The incongruity between the Roadmap's incremental approach and the usual development project approach which is driven by multi-year budgets and objectives, will be discussed in the final chapter.

Other Uses for the Roadmap

While not the primary focus of this book, it should be noted that the Roadmap approach is also applicable to "customers" other than investors. These can range from transporters and automobile drivers (e.g., improving vehicle registration and licensing procedures); the unemployed and elderly (e.g., processing of social security or unemployment benefits); or meat packers or the fishing industry (e.g., procedures governing the inspection of meat products or vessel registration). In each case, a similar approach can be taken:

- Identify the customer and the customer's needs and characteristics;
- Determine the processes for which the "customer" must interact with the government;
- Complete an analysis of these processes and take a "snapshot" of the current state of affairs;

- Identify the root causes underlying this condition and the barriers to change; and,
- Work with natural groupings of government agencies to either eliminate government barriers or identify resource needs.

While the discussion in this book will focus on the Investor Roadmap, and how the Roadmap's four stages are used to develop and implement customer-focused investment procedures, the reader should remember that this discussion, and the *Roadmap* methodology, is applicable to broader economic and governance issues as well.

End Notes

[1] De Soto, Hernando, The Other Path: The Invisible Revolution in the Third World. New York: Harper & Row, p. xxiii.
[2] De Soto, p. 13.
[3] De Soto, pp. 133-52.
[4] For example, a survey of 37 companies found that they spent 40 percent of their total administrative staff time on complying with government regulations. This excluded the time needed to comply with taxation procedures. Similarly, various inflexible labor regulations influenced formal sector companies to become more capital intensive, an inefficient use of resources in a labor-abundant society. Pp. 148, 151.
[5] While reengineering business and government became a popular concept in the 1990s, thanks in part to Hammer and Champy, and books such as David Osborne's and Ted Gaebler's Reinventing Government, none of these authors invented the concept of reengineering. Rather, they described and systematically categorized reengineering activities being undertaken by firms and state and local governments in the 1980s and 1990s.
[6] Hammer, Michael and James Champy , Reengineering the Corporation: A Manifesto for Business Revolution (New York: HarperCollins Publishers, 1993) p. 32.
[7] Hammer and Champy, p. 48.
[8] Osborne and Gaebler, although they use different terminology and are talking about government rather than business, have a similar thesis. Governments, they point out, are typically "rule-driven'" rather than "mission driven." Rule-driven governments find it difficult to innovate or to respond to change. Mission-driven, or entrepreneurial government, on the other hand, are capable of responding to change or to competition, because they adopt their rules and procedures to support their mission, rather than letting the rules define what can or cannot be done. Osborne, David and Ted Gaebler, Reinventing Government: How the Entrepreneurial Spirit is Transforming the Public Sector (New York: Penguin Books, 1992), pp. 110-11.
[9] Hammer and Champy, p. 117.
[10] This phrase is from Osborne and Gaebler. In their book Reinventing Government, customer-driven government is just one of ten principles needed to create an "entrepreneurial government." A key part of Osborne's and Gaebler's focus on customer-driven government is using competition -- for example, giving students a choice of schools -- as way to stimulate governments to become more responsive. As is discussed later in this chapter, competition is inherent to government's efforts to attract FDI.
[11] Reinventing or reengineering government typically involves other aspects that are not part of the Roadmap's core approach, although some of these will be discussed in other parts of this book. They include the concepts of benchmarking, measuring performance, introducing competition into the provision of services, privatization of government functions, etc.
[11] The complexity of the business establishment process is indicated by the ratio of investment applications to implemented, or retained, investment. Investor-friendly countries target investment retention rates of 60-70 percent; in Singapore, the investment retention rate is reported to be as high as 80 percent (ck). By contrast, for example, the implementation rate is reported to have been as low as 14 percent in Pakistan, and was as low as 30 percent in Indonesia in recent years. Foreign Direct Investment, The Foreign Investment Advisory Service of the International Finance Corporation (Washington, DC: 1997) p. 40.

[13] Drawn from a recent global benchmarking survey conducted by The Services Group for USAID (forthcoming).